



# AGNC Investment Corporation (AGNC)

Updated February 8<sup>th</sup>, 2023 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$11.9	<b>5 Year CAGR Estimate:</b>	13.9%	<b>Market Cap:</b>	\$6.9B
<b>Fair Value Price:</b>	\$19.4	<b>5 Year Growth Estimate:</b>	-4.2%	<b>Ex-Dividend Date:</b>	01/30/23 <sup>1</sup>
<b>% Fair Value:</b>	61%	<b>5 Year Valuation Multiple Estimate:</b>	10.2%	<b>Dividend Payment Date:</b>	02/09/23
<b>Dividend Yield:</b>	12.1%	<b>5 Year Price Target</b>	\$16	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Buy

## Overview & Current Events

American Capital Agency Corp was founded in 2008, and is a mortgage real estate investment trust that invests primarily in agency mortgage-backed securities (or MBS) on a leveraged basis. The firm's asset portfolio is comprised of residential mortgage pass-through securities, collateralized mortgage obligations (or CMO), and non-agency MBS. Many of these are guaranteed by government-sponsored enterprises. The majority of American Capital's investments are fixed-rate agency MBS. Most of these are MBS with a 30-year maturity period. The counterparties to most of American Capital's assets are located in North America. Counterparties in Europe also represent a significant percentage of the trust's total portfolio. American Capital derives nearly all its revenue in the form of interest income. It currently trades at a market capitalization of \$6.9 billion.

AGNC reported its Q4 2022 results on Jan. 30, 2023. The company generated \$1.17 in comprehensive income per common share, comprised of: \$0.93 net income per common share, \$0.24 other comprehensive income ("OCI") per common share on investments marked-to-market through OCI, and \$0.74 net spread and dollar roll income per common share, excluding estimated "catch-up" premium amortization cost. This result includes \$0.11 per common share of dollar roll income associated with the Company's \$19.0 billion average net long position in Agency mortgage-backed securities ("MBS") in the "to-be-announced" ("TBA") market, and excludes \$(0.01) per common share of estimated "catch-up" premium amortization cost due to change in projected constant prepayment rate ("CPR") estimates.

The company reported \$9.84 tangible net book value per common share as of December 31, 2022, which increased \$0.76 per common share, or 8.4%, from \$9.08 per common share as of September 30, 2022. The \$0.36 dividends declared per common share for the fourth quarter combined with the book value growth to generate a 12.3% economic return on tangible common equity for the quarter.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$3.28	(\$0.72)	\$0.54	\$1.79	\$2.04	\$0.21	\$2.26	\$2.70	\$3.02	\$3.11	<b>\$2.42</b>	<b>\$1.95</b>
<b>DPS</b>	\$3.75	\$2.61	\$2.48	\$2.30	\$2.16	\$2.16	\$2.16	\$1.44	\$1.44	\$1.44	<b>\$1.44</b>	<b>\$1.44</b>
<b>Shares<sup>1</sup></b>	379	353	349	331	358	441	546	538	522	574	<b>574</b>	<b>550</b>

Due to AGNC's heavily leveraged business model and its high sensitivity to interest rates, its results have been very choppy over the years. We believe that the current lower interest rate environment stemming from weak global growth and the Federal Reserve's dovish stance in the wake of COVID-19 should enable it to weather the challenges well since it will keep spreads attractive and the mortgage market on somewhat solid footing. That said, interest rates are beginning to rise as the Federal Reserve has turned increasingly hawkish.

Over the long-term we think the hefty dividend payout and the volatile nature of the business model will harm earnings per share growth. We also believe that dividend growth will be non-existent for the foreseeable future.

<sup>1</sup> Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	5.9	-30.4	31.8	10.1	9.9	83.6	7.5	5.5	5.4	3.1	4.9	8.0
Avg. Yld.	19.4%	11.9%	14.4%	12.7%	10.7%	12.3%	12.7%	10.3%	9.1%	15.3%	12.1%	9.2%

AGNC is currently trading at 4.9 times its projected 2022 earnings, and we see this as undervalued based on its longer-term P/E averages. As a result, we expect valuation multiple expansion over the next half decade. The dividend yield is uncertain moving forward as the company has a history of cutting its dividend during times of uncertainty. However, our current estimate implies a yield that is above historical averages.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	114%	-363%	426%	131%	106%	1029%	96%	53%	48%	46%	60%	74%

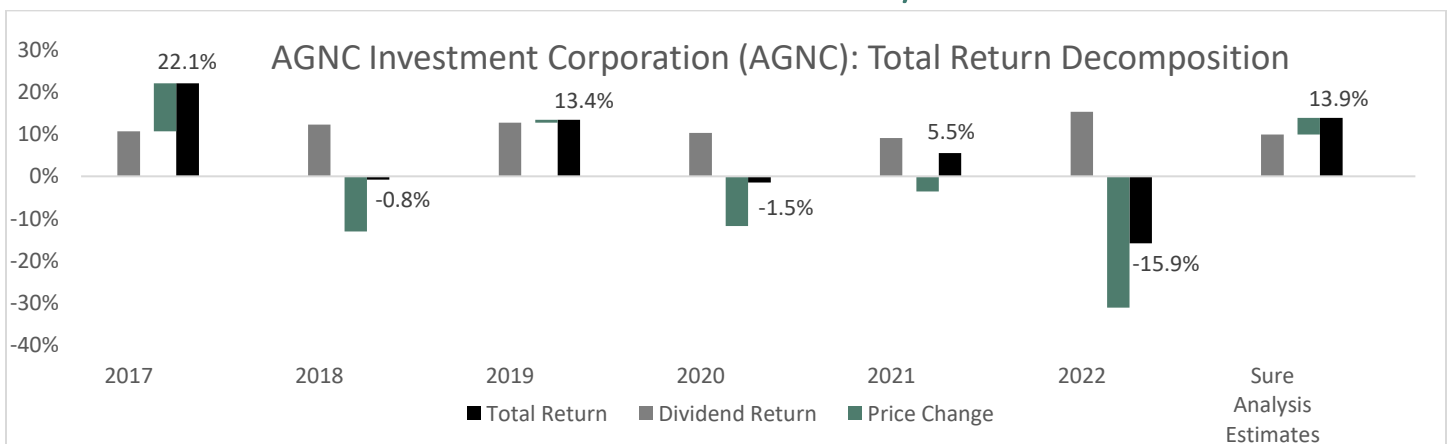
Given that it had its IPO in 2008 – in the midst of the financial crisis – it is hard to get an accurate picture of exactly how it can be expected to perform during this recession. However, the mortgage-backed security industry – given its leverage and interest rate sensitivity – is very prone to underperform when the housing market experiences a downturn and mortgage foreclosures rise. As a result, it should not be viewed as a safe, defensive stock. That being said, its record thus far has been fairly strong, with industry-leading total economic return (NAV-based) and total stock return (share price-based).

This outperformance has been driven by its highly efficient operating cost structure and the competitive advantage that it enjoys through economies of scale as one of only a few residential mortgage REITs with a market capitalization of above \$5 billion. The trust also strives to guard against downside and enhance shareholder total returns by utilizing a comprehensive risk management framework that is predicated on careful asset selection, disciplined hedging, and diversified funding.

## Final Thoughts & Recommendation

AGNC offers investors an attractive current dividend yield of 12.1% and a discount to fair value in its earnings multiple. As a result, we expect 13.9% annualized total returns over the next half decade. That said, the earnings stream is unpredictable and highly leveraged. Still, the annualized total return potential is so high that we rate shares a speculative Buy.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	1,304	(211)	238	676	844	229	771	(173)	837	1304
<b>SG&amp;A Exp.</b>	32	-	-	19	42	45	47	56	54	32
<b>D&amp;A Exp.</b>		-	-	2	3	25	-	-		
<b>Net Profit</b>	1,259	(233)	215	623	771	129	688	(266)	749	1259
<b>Net Margin</b>	96.5%	110%	90.3%	92.2%	91.4%	56.3%	89.2%	154%	89.5%	
<b>Free Cash Flow</b>	2,501	1,622	1,428	1,352	1,260	1,113	1,180	1,747	1,622	2,501

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	76255	67766	57021	56880	70376	109241	113082	81817	68149	76255
<b>Cash &amp; Equivalents</b>	2143	1720	1110	1208	1046	921	831	1017	998	2143
<b>Goodwill &amp; Int.</b>			-	554	551	526	526	526	526	
<b>Total Liabilities</b>	67558	58338	49050	49524	61622	99335	102041	70738	57858	67558
<b>Accounts Payable</b>	492	100	61	211	299	518	424	219	400	492
<b>Long-Term Debt</b>	910	761	4,348	3,497	357	275	228	177	126	910
<b>Total Equity</b>	8,530	9,092	7,635	7,020	8,270	9,422	10,109	9,590	8,802	8530
<b>LTD/E Ratio</b>	0.10	0.08	0.55	0.48	0.04	0.03	0.02	0.02	0.01	0.1046

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	1.4%	-0.3%	0.3%	1.1%	1.2%	0.1%	0.6%	-0.3%	1.0%	-2.0%
<b>Return on Equity</b>	13.1%	-2.6%	2.6%	8.5%	10.1%	1.5%	7.0%	-2.7%	8.1%	-15.8%
<b>ROIC</b>	11.7%	-2.4%	1.9%	5.4%	7.7%	1.3%	6.4%	-2.4%	6.9%	-12.9%
<b>Shares Out.</b>	379	353	349	331	358	441	546	538	522	574
<b>Revenue/Share</b>	3.44	(0.60)	0.68	2.04	2.35	0.52	1.42	(0.31)	1.58	(2.08)
<b>FCF/Share</b>	6.60	4.59	4.10	4.07	3.51	2.52	2.18	3.17	2.91	

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

### Disclaimer

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